

**Supporting Statement for
Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies
(FR Y-11, FR Y-11S; OMB No. 7100-0244), and
Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations
(FR 2314, FR 2314S; OMB No. 7100-0073)**

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to revise, without extension, the following mandatory reports, for implementation March 31, 2006:

- (1) the Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies (FR Y-11; OMB No. 7100-0244), and
- (2) the Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314; OMB No. 7100-0073).

This family of reports also contains the following reports that are not being revised:

- (1) the Abbreviated Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies (FR Y-11S; OMB No. 7100-0244), and
- (2) the Abbreviated Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314S; OMB No. 7100-0073).

The FR Y-11 reports collect financial information for individual U.S. nonbank subsidiaries of domestic bank holding companies (BHCs). BHCs file the FR Y-11 on a quarterly or annual basis according to filing criteria or file the FR Y-11S annually. The FR Y-11 data are used with other BHC data to assess the condition of BHCs that are heavily engaged in nonbanking activities and to monitor the volume, nature, and condition of their nonbanking operations. The FR 2314 reports collect financial information for direct or indirect foreign subsidiaries of U.S. state member banks (SMBs), Edge and agreement corporations, and BHCs. Parent organizations (SMBs, Edge and agreement corporations, or BHCs) file the FR 2314 on a quarterly or annual basis according to filing criteria or file the FR 2314S annually. The FR 2314 data are used to identify current and potential problems at the foreign subsidiaries of U.S. parent companies, to monitor the activities of U.S. banking organizations in specific countries, and to develop a better understanding of activities within the industry, in general, and of individual institutions, in particular.

The Federal Reserve proposes to raise the asset-size threshold for filing the quarterly FR Y-11 and FR 2314 reports to make them consistent with the proposed filing threshold for reporting the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C; OMB No. 7100-0128) and to further reduce reporting burden. For the FR Y-11 and FR 2314, the Federal Reserve also proposes to (1) add one new equity capital component on the balance sheet for reporting partnership interests and (2) reclassify reporting of certain annuity sales revenue on the income statement. On the FR Y-11, the Federal Reserve also proposes to revise several balance sheet memoranda items to capture securitization information on transactions involving assets other than loans. No revisions are proposed to the content of the FR Y-11S and FR 2314S; however, several respondents would shift to filing the FR Y-11S because of the proposed threshold revisions. The changes in the reporting thresholds would have no immediate effect on

the FR 2314 panel because there are currently no quarterly filers owned by parent organizations with assets less than \$500 million.

Copies of the proposed reporting forms, marked to show the revisions, are provided in the attachment. The total current annual burden for the FR Y-11 is estimated to be 39,131 hours and is estimated to decrease by 11,442 hours with these revisions. The total current annual burden for the FR 2314 is estimated to be 5,775 hours and is estimated to increase by 230 hours.

Background and Justification

The FR Y-11 family of reports collects financial information for individual U.S. nonbank subsidiaries of domestic BHCs, which is essential for monitoring the subsidiaries' potential impact on the BHC or its subsidiary banks' condition. Consolidated and parent company only data do not reveal the extent of the problems that may exist within the nonbank subsidiaries because the size and operations of bank subsidiaries can mask the operations of nonbank subsidiaries in a consolidated report.

In addition to providing information used in the supervision of BHCs, the FR Y-11 family of reports provides essential information to assist the Federal Reserve in the formulation of regulations and supervisory policies. The data are also used by the Federal Reserve to respond to requests from Congress and the public for information on BHCs.

The FR 2314 family of reports is the only source of comprehensive and systematic data on the assets, liabilities, and earnings of the foreign bank and nonbank subsidiaries of U.S. banking organizations and the data are used to monitor the growth, profitability, and activities of these foreign companies. The data help the Federal Reserve identify present and potential problems of these companies, monitor their activities in specific countries, and develop a better understanding of activities within the industry and within specific institutions. This information, coupled with information from the Foreign Branch Reports of Condition (FFIEC 030; OMB No. 7100-0071), provides a picture of the breadth and scope of international banking operations for U.S. banking organizations both individually and in the aggregate.

Description of the Information Collection

FR Y-11 and FR Y-11S

Domestic BHCs file the FR Y-11 for their U.S. nonbank subsidiaries on an individual basis. The FR Y-11 consists of a balance sheet and income statement; information on changes in equity capital, changes in the allowance for loan and lease losses, off-balance-sheet items, and loans; and a memoranda section. The FR Y-11 is filed quarterly, as of the last calendar day of March, June, September, and December, by top-tier BHCs for each individual nonbank subsidiary that is owned or controlled by a BHC with total consolidated assets of \$150 million or more if the nonbank subsidiary has (a) total assets of \$1 billion or more, or (b) total off-balance-sheet activities of at least \$5 billion, or (c) equity capital of at least 5 percent of the top-tier BHC's consolidated equity capital, or (d) operating revenue of at least 5 percent of the top-tier BHC's consolidated operating revenue. The FR Y-11 is filed annually, as of December 31, by top-tier BHCs for each individual nonbank subsidiary (that does not meet the criteria for filing quarterly) with total assets of \$250 million, but less than \$1 billion. The FR Y-11S is an

abbreviated form that comprises four data items: net income, total assets, equity capital, and total off-balance-sheet items. The FR Y-11S is filed annually, as of December 31, by top-tier BHCs for each individual nonbank subsidiary (that does not meet the criteria for filing quarterly) with total assets of at least \$50 million, but less than \$250 million, or with total assets greater than 1 percent of the total consolidated assets of the top-tier organization.

FR 2314 and FR 2314S

The FR 2314 collects financial information for direct or indirect foreign subsidiaries of U.S. state member banks (SMBs), Edge and agreement corporations, and BHCs. The FR 2314 consists of a balance sheet and income statement; information on changes in equity capital, changes in the allowance for loan and lease losses, off-balance-sheet items, and loans; and a memoranda section. U.S. parent BHCs with total consolidated assets of \$150 million or more, U.S. SMBs, or Edge and agreement corporations file the FR 2314 quarterly as of the last calendar day of March, June, September, and December, if the foreign subsidiary has (a) total assets of \$1 billion or more, or (b) total off-balance-sheet activities of at least \$5 billion, or (c) equity capital of at least 5 percent of the top-tier organization's consolidated equity capital, or (d) operating revenue of at least 5 percent of the top-tier organization's consolidated operating revenue. The FR 2314 is filed annually for each individual nonbank subsidiary (that does not meet the criteria for filing quarterly) with total assets of \$250 million, but less than \$1 billion. The FR 2314S is an abbreviated form that comprises four data items: net income, total assets, equity capital, and total off-balance sheet items. The FR 2314S is filed annually, as of December 31, for each individual nonbank subsidiary (that does not meet the criteria for filing quarterly) with assets of at least \$50 million but less than \$250 million, or with total assets greater than 1 percent of the total consolidated assets of the top-tier organization.

Proposed Revisions

Revisions to Filing Criteria

The Federal Reserve proposes to revise the reporting criteria for the quarterly FR Y-11 and FR 2314 reports to be consistent with the proposed threshold for the FR Y-9C and reduce reporting burden. Specifically, the Federal Reserve proposes that a BHC must file the FR Y-11 quarterly for its subsidiary if the subsidiary is owned or controlled by a top-tier BHC that files the FR Y-9C¹ and the subsidiary has (a) total assets of \$1 billion or more, or (b) total off-balance-sheet activities of at least \$5 billion, or (c) equity capital of at least 5 percent of the top-tier BHC's consolidated equity capital; or (d) operating revenue of at least 5 percent of the top-tier BHC's consolidated operating revenue. The Federal Reserve proposes that a BHC must file the FR 2314 quarterly for its subsidiary if the subsidiary is owned or controlled by a parent U.S. BHC that files the FR Y-9C or a state member bank or an Edge or agreement cooperation that has total consolidated assets equal to or greater than \$500 million and the subsidiary has (a) total assets of \$1 billion or more, or (b) total off-balance-sheet activities of at least \$5 billion, or (c) equity capital of at least 5 percent of the top-tier organization's consolidated equity capital, or

¹ The Federal Reserve is proposing to raise the asset-size threshold for purposes of consolidated FR Y-9C reporting, the Small Bank Holding Company Policy Statement and the Capital Guidelines from \$150 million to \$500 million. In addition, a limited number of holding companies with assets less than \$500 million may be required to file the FR Y-9C because they meet certain conditions.

(d) operating revenue of at least 5 percent of the top-tier organization's consolidated operating revenue.

Currently the primary criterion for determining quarterly reporting for the FR Y-11 and FR 2314 is linked to the asset-size threshold for FR Y-9C reporting. Retaining the current asset-size threshold of \$150 million may cause an inconsistency by requiring a BHC to file quarterly nonbank subsidiary reports for certain nonbank subsidiaries even when the BHC is not required to file the FR Y-9C quarterly. Revising the threshold for nonbank subsidiary reporting as described above would maintain consistency. Linking the primary nonbank reporting criterion to whether the BHC files a FR Y-9C would trigger the quarterly filing of the nonbank reports by nonbank subsidiaries meeting the filing requirements. If the BHC has assets less than \$500 million but is engaged in significant activities that warrant filing of the FR Y-9C and meets one or more of the additional FR Y-11 and FR 2314 quarterly reporting criteria, the Federal Reserve believes that it is also necessary for supervisory purposes to collect nonbank subsidiary reports on a quarterly basis.

The criteria for filing the FR 2314 would be revised to maintain the consistency in the reporting criteria for nonbank subsidiary reports. Revising the quarterly reporting threshold for the FR 2314 filers would have no immediate effect on the panel because currently there are no quarterly filers owned by parent organizations with assets less than \$500 million. However, the Federal Reserve believes that there may be a small number of additional FR 2314 reports filed for subsidiaries owned by a BHC that has assets under \$500 million and that files the FR Y-9C because they meet certain conditions.

As currently required, a parent organization must file the FR Y-11 and FR 2314 for any nonbank subsidiary that satisfies the quarterly filing criteria for any quarter during the calendar year and must continue to report quarterly for the remainder of the calendar year even if the nonbank subsidiary no longer satisfies the requirements for quarterly reporting. The Federal Reserve proposes to modify this reporting requirement to be more consistent with the FR Y-9C. The Federal Reserve proposes to revise the reporting instructions for quarterly filers under "Who Must Report" to indicate that if a nonbank subsidiary meets the criteria for quarterly filing as of June 30 of the preceding year, its parent organization should begin reporting the FR Y-11 and FR 2314 quarterly for the nonbank subsidiary beginning in March of the current year and continue to report for the entire calendar year. In addition, if a nonbank subsidiary meets the quarterly filing criteria due to a business combination, then the parent organization would report the FR Y-11 and FR 2314 quarterly beginning with the first quarterly report date following the effective date of the business combination. If a nonbank subsidiary subsequently does not meet the quarterly filing criteria for four consecutive quarters, then the parent organization would revert to annual filing.

The Federal Reserve is not proposing any revisions to the annual reporting criteria for FR Y-11, FR 2314, FR Y-11S, and FR 2314S. The Federal Reserve believes the existing criteria are sufficient to meet the Federal Reserve's supervisory needs. However, as noted above, several quarterly respondents would file abbreviated reports due to the proposed threshold revisions to the FR Y-9C.

Other Proposed Revisions That Parallel Revisions Proposed to the FR Y-9C

Schedule IS—Income Statement

The Federal Reserve proposes to change the category of noninterest income in which nonbank subsidiaries report income from certain sales of annuities from item 5.a.(8), Insurance commissions and fees, to item 5.a.(4), Investment banking, advisory, brokerage, and underwriting fees and commissions, to be consistent with the proposed revision to the FR Y-9C. Currently, nonbank subsidiaries report income from the sales of annuities and related commissions and fees in item 5.a.(8). Since annuities are deemed to be financial investment products rather than insurance, the Federal Reserve proposes to revise the instructions for item 5.a.(8) and item 5.a.(4) by moving the reference to annuities in the former item to the latter item.

Schedule BS-M-Memoranda (FR Y-11 only)

The Federal Reserve proposes to expand the scope of item 2.a, Number of loans in servicing portfolio, item 2.b, Dollar amount of loans in servicing portfolio, and item 3, Loans that have been securitized and sold without recourse with servicing rights retained, to include assets other than loans. The captions and instructions for these items would be revised to include other assets. The proposed change would ensure that the Federal Reserve can monitor the full range of the nonbank subsidiaries' involvement in securitization.

Other Proposed Revisions

Schedule BS—Balance Sheet

The Federal Reserve proposes to add a new item, 18.e, General and limited partnership shares and interests, renumber current item, 18.e, Other equity capital components, as item 18.f., and renumber current item 18.f, Total equity capital, as item 18.g. Currently, the instructions for item 18, Equity capital, directs subsidiaries that are not corporate in form (that is, those that do not have capital structures consisting of capital stock and the other components of equity capital currently listed under item 18) to report their entire net worth in item 18.f, Total equity. The reporting form and the instructions for item 18.f, Total equity, state that item 18.f must equal the sum of the components of item 18. However, equity capital of those entities not in corporate form cannot appropriately be reported in any of the components of item 18. The proposed item and clarifications to the instructions for item 18 would remove this inconsistency and improve the accuracy of the information reported. In addition, the Federal Reserve proposes to clarify that Schedule IS-A, Changes in Equity Capital, item 6, Other adjustments to equity capital, should include contributions and distributions to and from partners or limited liability company (LLC) shareholders when the company is a partnership or a LLC. Schedule IS-A, item 6 is a component of Schedule IS-A, item 7, Total equity at end of current period. Schedule IS-A, item 7 must equal Schedule BS, item 18.f, Total equity.

Frequency

There are no changes proposed to the reporting frequency of the FR Y-11 and FR 2314. The current reporting frequencies provide adequate timely data to meet the analytical and supervisory needs of the Federal Reserve.

Time Schedule for Information Collection

The quarterly FR Y-11 and FR 2314 are filed as of the end of March, June, September, and December and are submitted within sixty days after the as-of date. Meeting the thresholds for filing quarterly is self determined by the respondent and ascertained as of the reporting date. The FR Y-11 annual, FR Y-11S, FR 2314 annual, and FR 2314S are filed as of the end of December and are also submitted within sixty days after the as-of date. The data from the FR Y-11 and FR 2314 that are not given confidential treatment are available to the public, but are not published routinely.

Legal Status

The Board's Legal Division has determined that the FR Y-11 reports are authorized by Section 5(c) of the Bank Holding Company Act [12 U.S.C. 1844(c)]. The Board's Legal Division has determined that the FR 2314 reports are authorized under 12 U.S.C. 324, 602, 625, and 1844(c).

Overall, the Board does not consider these data to be confidential. However, a respondent may request confidential treatment pursuant to section (b)(4) of the Freedom of Information Act [5 U.S.C. 552(b)(4)].

Consultation Outside the Agency

There has been no consultation outside the Federal Reserve System.

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

Estimates of Respondent Burden

As shown in the following table, the current estimated annual reporting burden for the FR Y-11 is 39,131 hours and would decrease to 27,689 hours. The change in reporting thresholds would result in a shift of 362 quarterly respondents to the annual panel. The increase in the estimated average hours per response is due to the reclassification of annuity sales. As a result of these changes, on net the estimated annual burden would decrease by 11,442 hours.

The current estimated annual reporting burden for the FR 2314 reports is 5,775 hours and would increase to 6,005 hours. The changes in the reporting thresholds would have no immediate effect on the FR 2314 panel because there are currently no quarterly filers owned by

parent organizations with assets less than \$500 million. The increase in the estimated average hours per response is due to the reclassification of annuity sales.

	<i>Number of respondents</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
<u><i>Current</i></u>				
FR Y-11 (quarterly)	1,525	4	6.0	36,600
FR Y-11 (annual)	283	1	6.0	1,698
FR Y-11S	833	1	1.0	<u>833</u>
<i>Total</i>				39,131
<u><i>Proposed</i></u>				
FR Y-11 (quarterly)	989	4	6.25	24,725
FR Y-11 (annual)	283	1	6.25	1,769
FR Y-11S	1,195	1	1.0	<u>1,195</u>
<i>Total</i>				27,689
<i>Change</i>				(11,442)
<u><i>Current</i></u>				
FR 2314(quarterly)	192	4	6.0	4,608
FR 2314 (annual)	152	1	6.0	912
FR 2314S	255	1	1.0	<u>255</u>
<i>Total</i>				5,775
<u><i>Proposed</i></u>				
FR 2314(quarterly)	192	4	6.25	4,800
FR 2314 (annual)	152	1	6.25	950
FR 2314S	255	1	1.0	<u>255</u>
<i>Total</i>				6,005
<i>Change</i>				230

Based on an average hourly cost of \$30, the current annual cost to the public for filing the FR Y-11 is estimated to be \$1,173,930 and would decrease to \$830,670. The annual cost to the public for filing the FR 2314 is estimated to be \$173,250 and would increase to \$180,150.

Estimate of Cost to the Federal Reserve System

The cost to the Federal Reserve System for collecting and processing the FR Y-11 is estimated to be \$453,107 annually. The cost to the Federal Reserve System for collecting and processing the FR 2314 is estimated to be \$48,800 annually.

Attachment